

**REPORT OF THE
ASSOCIATION FINANCIAL EXAMINATION OF
CATERPILLAR LIFE INSURANCE COMPANY**

**AS OF
MAY 31, 2004**



**STATE OF MISSOURI
DEPARTMENT OF INSURANCE
JEFFERSON CITY, MISSOURI**

TABLE OF CONTENTS

SCOPE OF EXAMINATION	1
PERIOD COVERED	1
PROCEDURES	2
COMMENTS - PREVIOUS EXAMINATION	2
HISTORY.....	3
GENERAL.....	3
CAPITAL STOCK.....	3
DIVIDENDS	4
MANAGEMENT	4
COMMITTEES	4
OFFICERS.....	5
CONFLICT OF INTEREST	5
CORPORATE RECORDS	5
ACQUISITIONS, MERGERS AND MAJOR CORPORATE EVENTS	6
SURPLUS DEBENTURES	6
AFFILIATED COMPANIES	6
HOLDING COMPANY, SUBSIDIARIES AND AFFILIATES	6
ORGANIZATIONAL CHART	7
INTERCOMPANY AGREEMENTS	7
INTERCOMPANY PAYMENTS	9
FIDELITY BOND AND OTHER INSURANCE.....	9
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS.....	9
STATUTORY AND OTHER DEPOSITS.....	10
DEPOSITS WITH THE STATE OF MISSOURI	10
DEPOSITS WITH OTHER STATES	10
INSURANCE PRODUCTS AND RELATED PRACTICES.....	10

TERRITORY AND PLAN OF OPERATION	10
POLICY FORMS & UNDERWRITING	11
ADVERTISING & SALES MATERIALS	11
TREATMENT OF POLICYHOLDERS	11
REINSURANCE	11
GENERAL.....	11
ASSUMED	11
CEDED	11
ACCOUNTS AND RECORDS.....	12
GENERAL.....	12
FINANCIAL STATEMENTS	12
ASSETS	13
LIABILITIES, SURPLUS AND OTHER FUNDS	13
SUMMARY OF OPERATIONS	13
NOTES TO THE FINANCIAL STATEMENTS.....	14
EXAMINATION CHANGES.....	14
GENERAL COMMENTS AND/OR RECOMMENDATIONS	14
ACKNOWLEDGMENT	15
VERIFICATION	15
SUPERVISION	15

Kansas City, Missouri
June 14, 2004

Chairman of Financial Condition (EX4) Subcommittee
Southeastern Zone Secretary
Honorable Alfred W. Gross, Commissioner
Virginia Bureau of Insurance

Midwestern Zone Secretary
Jim Poolman, Commissioner
North Dakota Department of Insurance

Honorable Scott B. Lakin, Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Gentlemen:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of

CATERPILLAR LIFE INSURANCE COMPANY

hereinafter referred to as such, as CLIC, or as the Company (previously known as Maxicare Life and Health Insurance Company (Maxicare)). Its administrative office is located at 2120 West End Avenue, Nashville, Tennessee 37203, telephone number 615-341-1115. This examination began on May 27, 2004, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

Since this is the first examination of the Company since court approval of the purchase of the corporate shell and associated licenses by Caterpillar Inc., the prior full scope association

financial examination of Maxicare is not germane to the current examination or to Caterpillar Life Insurance Company.

The current full scope association financial examination covered the period from May 1, 2004, through May 31, 2004, and was conducted by examiners from the State of Missouri, representing the Midwestern Zone of the NAIC, with no other zones participating.

This examination also included the material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance (MDI) and statutes of the State of Missouri prevailed.

Since this was an initial examination, covering a short, interim period, no information was requested or obtained from the Company's independent auditor, PricewaterhouseCoopers, LLP.

Comments - Previous Examination

Comments from the previous examination of Maxicare were not pertinent to the current examination. No previous examination of CLIC has been made.

HISTORY

General

Armour Life Insurance Company was incorporated on October 19, 1979. The Company commenced business as a stock life and health insurer under the insurance laws of Chapter 376 RSMo (Life, Health and Accident Insurance) as an affiliate of Kansas City Life Insurance Company. On November 26, 1985, the Company was sold, renamed Maxicare Life and Health Insurance Company, and its corporate offices moved to St. Ann, Missouri. On January 28, 2002, the Circuit Court of Cole County entered a judgment placing Maxicare into rehabilitation. On or about March 30, 2004, Caterpillar Insurance Holdings Inc. filed a Form A statement with the Missouri Department of Insurance for the acquisition of Maxicare. On April 12, 2004 an amended Form A was filed showing Caterpillar Inc. as the acquirer of Maxicare. On April 29, 2004 the Court issued an order approving the acquisition; the Department held a public hearing on the same date and approved the acquisition effective May 1, 2004. The court order removed all liabilities from Maxicare leaving a clean “shell” consisting of the corporate entity, its insurance licenses and statutory deposits. After the sale was completed, the Company’s Articles of Incorporation were amended, changing the name from Maxicare to Caterpillar Life Insurance Company. Also, as part of the acquisition process, Caterpillar Inc. funded the Company with a \$10 million infusion - \$600,000 as a statutory deposit with the State of Missouri and the remaining \$9.4 million to capitalize CLIC’s beginning operations.

Capital Stock

The Company’s Articles of Incorporation allow for the issuance of 40,000 shares of common stock with a par value of \$125 per share. As of May 31, 2004, 20,000 shares of

common stock were issued and outstanding for a total capital stock balance of \$2,500,000. All shares were issued to Caterpillar Inc.

Dividends

No dividends or cash distributions were paid or declared during the examination period.

Management

The management of the Company is vested in a Board of Directors that are appointed by the sole shareholder, which was Caterpillar Inc., as of the examination date. The Company's Bylaws specified that there shall be no less than nine directors and no more than twenty-four. The Board of Directors appointed and serving, as of May 31, 2004, were as follows:

<u>Name</u>	<u>Address</u>	<u>Occupation and Business Affiliation</u>
James S. Beard	Nashville, TN	President, Caterpillar Financial Services Corp.
Michael D. Reeves	Marietta, GA	President, Caterpillar Life Insurance Company
Jeffery L. Pridgen	Brentwood, TN	Vice President Business Development, Caterpillar Insurance Holdings Inc.
Brian P. LePage	Franklin, TN	Vice President Chief Actuary, Caterpillar Insurance Holdings Inc.
Tammy R. Adcock	Nashville, TN	Vice President and Treasurer, Caterpillar Insurance Company
John D. Richardson	Brentwood, TN	Vice President Market Development, Caterpillar Insurance Holdings Inc.
James R. Bynum	Brentwood, TN	Vice President Claims, Caterpillar Insurance Company
Annamarie Collins	Franklin, TN	Administrative Manager
David L. Bomberger	Peoria, IL	President, Caterpillar Investment Management Ltd.

Committees

The Bylaws are silent as to any committees that may be formed by the Board of Directors.

Officers

The officers elected by the Board of Directors and serving as of May 31, 2004, were as follows:

Michael D. Reeves	President
Jeffrey L Pridgen	Vice President
Brian P. LePage	Vice President
Donald J. Meyers	Vice President, General Counsel and Secretary
Tammy R. Adcock	Vice President and Treasurer
John D. Richardson	Vice President
James R. Bynum	Vice President
Annamarie Collins	Vice President
Robin D. Beran	Assistant Treasurer

Conflict of Interest

The Company has a policy that requires all officers, directors, and key employees to complete a conflict of interest statement each year. Signed statements had not been signed as of the examination date, however like statements signed for 2004 for Caterpillar Insurance Company, an affiliate, were reviewed. No exceptions were noted.

Corporate Records

A review was made of the Articles of Incorporation and Bylaws for the examination period. The Articles of Incorporation were amended April 30, 2004, changing the name of the corporation from Maxicare to Caterpillar Life Insurance Company. The Bylaws were amended and restated as of May 31, 2004 to reflect changes under the new management.

The minutes of the Board of Directors' meetings, committee meetings, and stockholders' meetings were reviewed for proper approval of corporate transactions. In general, the minutes appear to properly reflect and approve the Company's major transactions and events for the period under examination.

Acquisitions, Mergers and Major Corporate Events

At the time of purchase, Caterpillar Inc. infused \$10 million to capitalize the Company - \$2.5 million for the common stock, and \$7.5 million as additional paid-in capital. This deposit was made into the Company's accounts on April 30, 2004.

Surplus Debentures

No surplus debentures were issued or outstanding for the period under examination. As part of the proposed business plan, the Company plans to issue \$60 million in surplus notes to its parent, Caterpillar Inc. during 2004 and 2005.

AFFILIATED COMPANIES

Holding Company, Subsidiaries and Affiliates

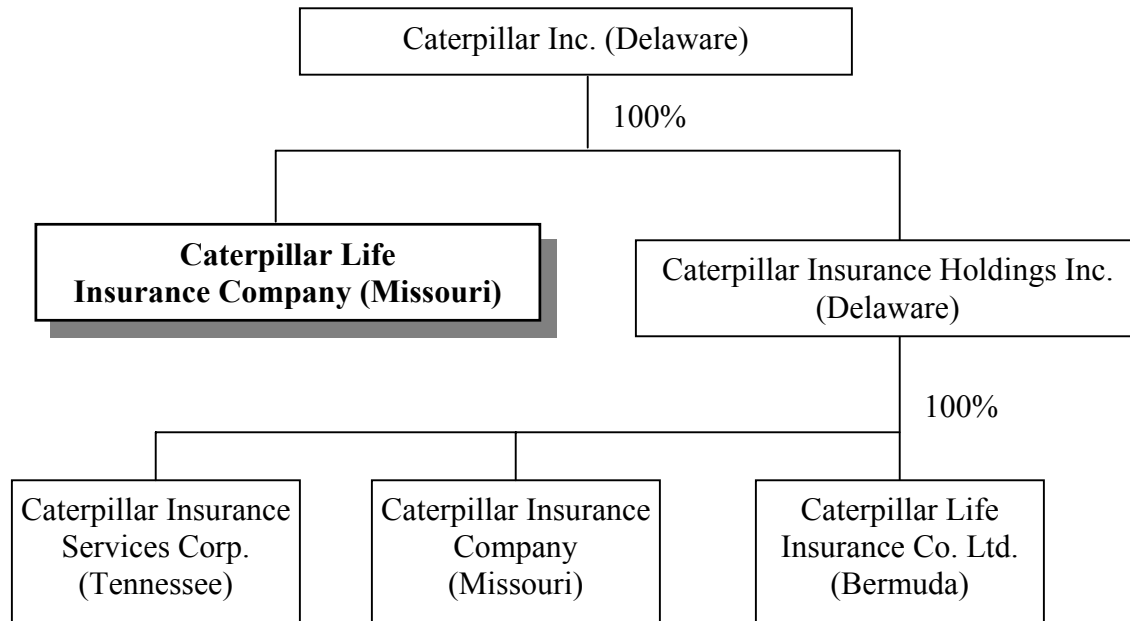
The Company is a member of an Insurance Holding Company System as defined by Section 382.010, RSMo (Definitions). An Insurance Holding Company System Registration Statement was filed by CLIC during the examination period.

CLIC was owned 100% by Caterpillar Inc., a Delaware corporation, as of May 31, 2004. Other insurance company holdings of the ultimate parent include: Caterpillar Insurance Holding Inc. (CIHI) (Delaware domicile), Caterpillar Insurance Services Corporation, (CISI) (Tennessee domicile), Caterpillar Insurance Company (CIC) (Missouri domicile) and Caterpillar Insurance Company LTD (CICL) (Bermuda domicile).

As a worldwide corporation, Caterpillar Inc. has various other subsidiaries not listed above. CLIC does not own any subsidiaries. For 2003 Caterpillar Inc. had approximately \$20 billion in sales; assets at December 31, 2003 were approximately \$35 billion and stockholders' equity was approximately \$6 billion.

Organizational Chart

The following organizational chart depicts the ownership and affiliates of Caterpillar Inc., as of May 31, 2004. Only those affiliates that have a direct relationship and business affiliation with Company are shown.



Intercompany Agreements

The Company's intercompany agreements in effect, as of May 31, 2004, are outlined below.

1. **Type:** Management Agreement
- Affiliate:** Caterpillar Inc, Caterpillar Insurance Company, Caterpillar Financial Services Corporation, Caterpillar Insurance Services Corporation,
- Effective:** May 1, 2004
- Terms:** The agreement was originally between Caterpillar Inc and other subsidiaries. CLIC was added to the agreement on May 1, 2002 after the acquisition was approved by MDI. Caterpillar Inc. and various listed subsidiaries will provide the full range of business services necessary to operate the Company. The agreement also includes provisions for allocating actual expenses for goods and services obtained from unaffiliated entities. Fees related to the services will be

paid by CLIC and affiliates based on actual service usage; consistent with the provisions of Regulation 30 of the New York Insurance Department which allocated expenses based on time studies. Fees are payable monthly.

- 2. Type:** Investment Management Agreement
Affiliate: Caterpillar Investment Management Ltd. (CIML)
Effective: May 1, 2004
Terms: CIML will have full and complete discretionary power and authority to manage the Company's assets (subject to the Company's investment policy). Fees are based on the quarter-ending market value of all investments (less affiliated investments). CIML will be paid thirty basis points for the first \$20 million in investments, twenty-five basis points for the next \$50 million, and fifteen basis points for balances over \$70 million.
- 3. Type:** Managing General Agency Agreement
Affiliate: Caterpillar Insurance Services Corporation (CISC)
Effective: May 1, 2004
Terms: CISC will act in all capacities of an insurance general agent on all insurance contracts placed with the Company. Services will include soliciting, receiving and accepting proposals, and binding contracts for insurance under all lines authorized by any certificate of authority granted the Company. Fees related to this agreement shall be paid under the Management Agreement.
- 4. Type:** Intercompany Loan Agreements
Affiliate: Caterpillar Inc., Solar Turbines Inc., Caterpillar World Trading Corp., Caterpillar Paving Products Inc.
Effective: May 1, 2004
Terms: Under like but individual agreements, the Company will loan the affiliates listed above \$12 million each at an interest rate of 5.6% per annum. The notes are payable on demand. Funding for these loans will be obtained from the proceeds of the \$60 million surplus notes issued to Caterpillar Inc.
- 5. Type:** Intercompany Quota-Share Reinsurance Agreement
Affiliate: Caterpillar Insurance Company
Effective: May 1, 2004
Terms: CIC will cede and CLIC will accept as reinsurance a 100% quota share interest in all policies written under the Group Accident and Health line of business (Caterpillar Inc's retiree medical and long-term disability). CIC will receive a commission of 5% of gross written premiums.

Intercompany Payments

The Company has not yet commenced operations, and as a result, no intercompany payments have been made.

FIDELITY BOND AND OTHER INSURANCE

The Company has indicated it is covered as a subsidiary of Caterpillar Inc. on a financial institution bond. The bond provides employee fidelity coverage with a liability limit of \$15,000,000 and a \$1,000,000 deductible. This level of coverage complies with the suggested minimum amount of fidelity insurance, according to NAIC guidelines.

Caterpillar Life has not been named on any other policies to date. As noted in the intercompany agreements above, the Company has no employees or assets (other than investments) and does not require other insurance coverage at this time.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

CLIC does not have any direct employees. All of the operational and administrative functions of CLIC are performed by the employees of affiliates under the Management Agreement described in the Intercompany Transactions section of this report

A variety of standard benefits are provided to the Caterpillar employees. These benefits include, but are not limited to, health insurance, dental insurance, life insurance, accidental death and disability insurance, and worker's compensation insurance. Employees are also provided with a 401(k) retirement savings plan.

STATUTORY AND OTHER DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance, as of May 31, 2004, as reflected below, were sufficient to meet the capital deposit requirements for the State of Missouri in accordance with Section 376.290 RSMo (Trust Deposits). The funds on deposit as of May 31, 2004, were as follows:

<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
Cash	\$600,000	\$600,000	\$600,000

Deposits with Other States

As part of the Maxicare purchase, CLIC will be seeking the reinstatement of licenses in several states. As part of this reinstatement, CLIC will make statutory deposits to the appropriate custodians designated by said states in the amounts required by law. As of May 31, 2004, however, no such additional deposits had been made.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

Caterpillar Life is licensed by the Missouri Department of Insurance under Chapter 376 RSMo (Life, Health and Accident Insurance) to write the following lines of business: life, annuities and endowments, and accident and health. The Company is licensed in the following four jurisdictions: Missouri, Arizona, Texas, and District of Columbia. Since Maxicare was placed under receivership, licenses in several other states were suspended, revoked, withdrawn or surrendered – CLIC plans to apply for reinstatement of these licenses during 2004.

The Company will primarily serve as a reinsurer to Caterpillar Insurance Company (an affiliate) reinsuring on a quota share basis Caterpillar Inc.'s Retiree Medical and Long-Term

Disability Programs. In the past, these liabilities have been self-insured by the ultimate parent, Caterpillar Inc. Based on pro-forma financials, CLIC anticipates approximately \$90 million in premiums (and associated loss reserves) for this business during 2004.

Policy Forms & Underwriting
Advertising & Sales Materials
Treatment of Policyholders

The Missouri Department of Insurance has a market conduct staff that performs a review of these issues and generates a separate market conduct report. There have not been any MDI market conduct examination reports issued for the examination period.

REINSURANCE

General

Since the Company has not yet commenced operations, no insurance has been assumed or ceded.

Assumed

The Company is anticipating writing a quota-share reinsurance treaty with Caterpillar Insurance Company, with an effective date of May 1, 2004. CLIC will assume 100% of all Group Accident and Health (Retiree Medical and Long-Term Disability). This agreement has been filed with the Missouri Department of Insurance for review and approved.

Ceded

Per the current business plan, the Company does not anticipate entering into any reinsurance ceding contracts.

ACCOUNTS AND RECORDS

General

As this is a restart of the corporate entity, no audit has been performed to date. The Company has indicated that it will use the same CPA firm as its parent – PricewaterhouseCoopers, for future audits.

Since the Company has not yet commenced issuing policies, no actuarial opinion regarding the Company's policy and claim reserves has been performed.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of CLIC for the period ending May 31, 2004. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Notes to the Financial Statements." The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore, were only communicated to the Company and noted in the workpapers for each individual Annual Statement item.

Assets as of May 31, 2004

	<u>Assets</u>	Non-Admitted <u>Assets</u>	Net Admitted <u>Assets</u>
Cash and Short-term Investments	\$10,000,000	\$ 0	\$10,000,000
Investment Income Due and Accrued	<u>5,338</u>	<u>0</u>	<u>5,338</u>
TOTAL ASSETS	<u>\$10,005,338</u>	<u>\$ 0</u>	<u>\$10,005,338</u>

Liabilities, Surplus and Other Funds as of May 31, 2004

Income Tax Payable	\$ <u>1,906</u>
TOTAL LIABILITIES	<u>\$ 1,906</u>
Common Capital Stock	\$2,500,000
Gross Paid In and Contributed Surplus	7,500,000
Unassigned Funds (Surplus)	<u>3,431</u>
Capital and Surplus	<u>\$10,005,338</u>
TOTAL LIABILITIES AND SURPLUS	<u>\$10,005,338</u>

Summary of Operations For the Month Ended May 31, 2004

Net Investment Income	\$ <u>5,338</u>
TOTAL	<u>\$ 5,338</u>
 NET GAIN FROM OPERATIONS	 <u>\$ 5,338</u>
Federal Income Taxes Incurred	<u>(1,906)</u>
NET INCOME	<u>\$ 3,431</u>
 CAPITAL AND SURPLUS:	
Capital and Surplus, May 1, 2004	\$10,000,000
Net Income	<u>3,431</u>
CAPITAL AND SURPLUS, MAY 31, 2004	<u>\$10,005,338</u>

Notes to the Financial Statements

None.

Examination Changes

None.

General Comments and/or Recommendations

None

Conclusion:

It appears that Caterpillar Life Insurance Company is in good standing with the Missouri Department of Insurance and ready to commence operations as a life and accident and health insurer under the insurance laws of the Chapter 376 RSMo.

The Court order approving the acquisition removed all old liabilities (pertaining to Maxicare) leaving a clean “shell”. After approval of the purchase, Caterpillar Inc. provided initial funding with a \$10 million capital infusion.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Caterpillar Life Insurance Company during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
)
County of)

I, Bernie R. Troop, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of Caterpillar Life Insurance Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Bernie R. Troop, CFE
Examiner-In-Charge
Missouri Department of Insurance

Sworn to and subscribed before me this _____ day of _____, 2004.

My commission expires: _____

Notary Public

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

Frederick G. Heese, CFE, CPA
Audit Manager
Missouri Department of Insurance